

VZCZCXRO0228  
RR RUEHAG RUEHAST RUEHDA RUEHDBU RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA  
RUEHLN RUEHLZ RUEHPOD RUEHROV RUEHSR RUEHVK RUEHYG  
DE RUEHFT #2892 1710538  
ZNR UUUUU ZZH  
R 200538Z JUN 07  
FM AMCONSUL FRANKFURT  
TO RUEHC/SECSTATE WASHDC 1991  
INFO RHEBAAA/DEPT OF ENERGY WASHDC  
RUEHZL/EUROPEAN POLITICAL COLLECTIVE  
RUEHMO/AMEMBASSY MOSCOW 6127  
RUEHKV/AMEMBASSY KYIV 0081  
RUEHKS/AMEMBASSY MINSK 1521  
RUCNFRG/FRG COLLECTIVE

UNCLAS FRANKFURT 002892

SIPDIS

SIPDIS

EB/ESC/IEC for Steve Gallogly

E.O. 12958: N/A

TAGS: [ENRG](#) [EINV](#) [GM](#) [RS](#)

SUBJECT: Moncrief Sues BASF Over Gazprom Gasfield Contracts

¶1. SUMMARY: U.S.-based Moncrief Oil International has filed suit against German chemical giant BASF in a German regional court seeking EUR 6.3 billion in compensation for BASF's alleged role in a cancelled Gazprom concession. Moncrief signed a contract with Gazprom in 1997 to exploit 40 percent of the Yuzhno Ruskoye gas field, one of western Siberia's largest (an estimated 600 billion cubic meters); it now claims BASF damaged it by signing a later contract with Gazprom over the same rights. Since 2004, BASF and Gazprom have signed several far-reaching agreements to jointly exploit the field (with the support of Russian President Putin and chancellors Schroeder and Merkel) -- BASF is to hold 35 percent of the shares, and German utility company Eon may also participate. Moncrief says it had already invested heavily in the project and accuses BASF of complicity in the deal's rupture. At a May 31 hearing, however, the presiding judge questioned whether Moncrief can prove the validity of its prior agreement. Media sources say that without such proof, Moncrief's chances to win the suit are limited. END SUMMARY.

#### BACKGROUND / MONCRIEF'S PERSPECTIVE

-----

¶2. Moncrief Oil -- a large, privately held Texas gas and crude oil producer -- recently filed suit against Ludwigshafen-based BASF (the world's largest chemical company) and its subsidiary Wintershall in connection with disputed rights to the Yuzhno Ruskoye gas fields in Russia. Moncrief claims BASF purposefully induced Russian gas company Gazprom to breach its contracts with Moncrief.

¶3. In 1997, Moncrief and Russian Gazprom subsidiary Zapsibgazprom signed an exclusive contract guaranteeing a forty percent stake for Moncrief in the Yuzhno Ruskoye gas field in exchange for Moncrief to provide equity capital, financial investors, technical expertise, and business development for the gas fields. Moncrief claims that it was unfairly denied its share in the gas fields (valued at \$8.5 billion) -- after spending millions in project-related expenses -- due to a competing contract between BASF and Gazprom signed in 2004.

¶4. Moncrief filed its case at the Frankenthal county court (Rheinland-Pfalz) in December 2006. Moncrief's legal action seeks to annul BASF's contract along with injunctive relief, restitution, and damages by proving a "tortuous interference" under German law. To do so, it must show that BASF's actions toward Gazprom induced a violation of Gazprom's existing contractual duties with Moncrief (BASF rejects all charges). Presiding judge Manfred Nox has acknowledged the court's jurisdiction and stated that German law applies to the case; a ruling is scheduled for July 5, 2007.

¶5. NOTE: Moncrief's legal arguments are detailed at:

IMPLICATIONS

¶6. Moncrief believes that its litigation could affect the planned Russian-German Baltic Sea Pipeline. The pipeline project, whose economic viability has been criticized by energy analysts in the past, can only meet its targets with a significant supply of gas from the contested Yuzhno Russkoye field. Litigation by Moncrief could further delay completion of the project, which is already predicted to be unable to meet its scheduled operational target of ¶2010. Analysts and observers say publicly, however, that Moncrief has yet to prove it had (and still has) a valid agreement with Gazprom.

¶7. The contested gas fields have political implications as well. The company says the Moncrief-Gazprom partnership was part of the Bush-Putin Energy Initiative in 2003. On the German side, the contested 2004 contract between BASF and Gazprom was signed in the presence of then-Chancellor Gerhard Schroeder and Russian President Putin.

¶8. This message was coordinated with Embassy Berlin.

POWELL